



Director of
Central
Intelligence

~~Top Secret~~

OPSC+R
GAIL

25X1

National Intelligence Daily

Wednesday
5 November 1980

~~Top Secret~~

CO NID 80-260JX

5 November 1980

Copy 236

25X1

Page Denied

Top Secret

25X1

Contents

Situation Reports

Iraq-Iran. 1

Poland 4

Briefs and Comments

USSR: *Ustinov's Illness* 6USSR - Western Europe: *Demarches on China* 7Libya-Chad-Sudan: *Concern Over the Libyan Threat*. 8Yugoslavia-USSR: *Status of Relations*. 9

25X1

Netherlands: *TNF Developments* 10

25X1

South Korea: *Major Loan* 11Israel-France: *Aircraft Purchase*. 12

Special Analysis

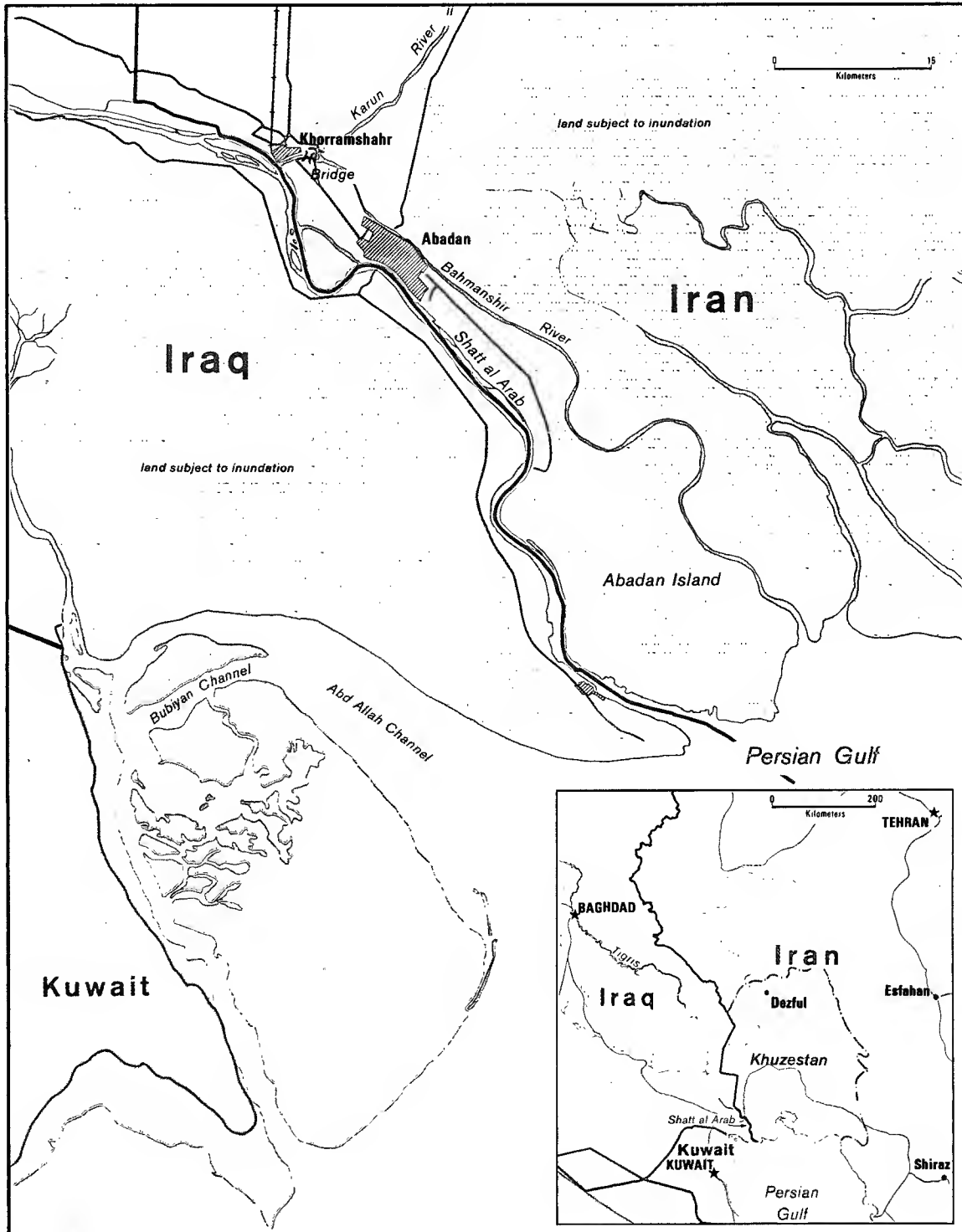
Poland: *Balance-of-Payments Deficit* 13

25X1

Top Secret

25X1

5 November 1980



Top Secret

SITUATION REPORTS

25X1

IRAQ-IRAN

Iraqi President Saddam Hussein, speaking before the National Assembly yesterday, portrayed Iraq as a nation prepared for a long war if Iran does not give in to its demands. [REDACTED]

25X1

Saddam reiterated Iraq's willingness to withdraw immediately from Iranian territory in return for "complete" recognition of Iraqi rights. He did not spell out his conditions, but Baghdad has consistently pressed for full sovereignty over the Shatt al Arab, restoration of disputed territory in the central border region, and a pledge of noninterference in Iraqi domestic affairs. Baghdad is unlikely to display any public flexibility on its terms to end the fighting so long as Tehran continues to demand a complete withdrawal of Iraqi troops before a cease-fire can take place. [REDACTED]

25X1

The Iraqi leader said his regime would not become isolated politically and that Iraq had "friends" who would supply it with more arms if needed. Saddam was somewhat defensive about the slow pace of Iraqi military progress, claiming that Baghdad's strategy was designed to conserve military strength for the long haul. [REDACTED]

25X1

The US Interests Section in Baghdad reports that the popular mood continues to be one of considerable forbearance toward the war. Saddam has been working hard at improving domestic civilian and military morale. His well-publicized visits to families of soldiers at the front or who have been killed in the fighting have apparently been effective. [REDACTED]

25X1

Diplomatic Activity

The meeting of the Nonaligned Movement foreign ministers in Belgrade ended yesterday with little progress in setting the groundwork for mediation. The ministers agreed to meet again in India and urged Cuba and the Palestine Liberation Organization to continue their consultations with Iran and Iraq. [REDACTED]

25X1

--continued

25X1

Top Secret

25X1

5 November 1980

Top Secret

25X1

25X1

Consultations also continue at the UN, but there is no sign of a breakthrough. [REDACTED]

25X1

[REDACTED] Tehran is still insisting that any resolution on the crisis call for complete Iraqi withdrawal from Iranian territory. [REDACTED]

25X1

25X1

25X1

Soviet Views on Mediation and Hostages

25X1

Moscow, however, may doubt the nonaligned effort will be successful and is adjusting its propaganda line on the hostage issue to the new mood in Iran favoring the hostages' release. A broadcast on Monday on the Soviet-sponsored National Voice of Iran asserted that Iran should realize its "legitimate demands" and that Iran has no "need" for the presence of the US hostages. [REDACTED]

25X1

25X1

--continued

Top Secret

25X1

5 November 1980

Top Secret

25X1

Possible Iranian Oil Shortages

Iranians will face severe deprivation over the next several months if Iraq succeeds in putting Iran's three remaining refineries--Shiraz, Esfahan, and Tehran--out of operation. Imports could only fill a fraction of Iran's average prewar oil consumption of about 550,000 barrels per day. Winter needs add an additional 100,000 barrels to daily consumption. Iran could import some 50,000 barrels per day from Western sources, but only at the expense of other imports, such as food. Should the USSR make the major political and economic commitment to supply oil products, total imports would still amount to no more than 70,000 barrels per day.

25X1

Widespread consumer shortages would be likely by January. Hardships would be especially severe in urban areas where substitute fuels needed for heating and cooking are not readily available. Even if consequent public discontent forced Iran to accept a cease-fire, relief would not be immediate, especially if Iraq had destroyed Iran's remaining refineries.

25X1

Top Secret

25X1

5 November 1980

Top Secret

25X1

POLAND

The free trade union Solidarity has again committed itself to a symbolic strike unless the Supreme Court delivers an acceptable verdict on the union's appeal of a lower court's unilateral revision of its charter. [redacted]

25X1

The official Polish press agency yesterday reported that Solidarity's appeal has reached the court, which the regime has pledged will act by 10 November. The decision on whether to strike will come the day after the court's decision; if there is a strike, it will consist of a series of two-day work stoppages in Warsaw and Gdansk and then spread throughout the country in the course of a week. [redacted]

25X1

Solidarity's decision represents a compromise among union leaders: it allows them to intensify their pressure on the regime without resorting to a general strike that would further damage the economy and that might provoke a severe response from the regime. The temperance of the threatened action, however, may only encourage the regime to believe it is freer to deny Solidarity some of the rights and privileges it seeks. [redacted]

25X1

Soviet and East European Attitudes

A strike--even a symbolic one--would heighten concern among Warsaw's allies about the ultimate outcome of Poland's domestic crisis. East Germany and Czechoslovakia already are maintaining a constant flow of inflammatory commentary. The East German party daily yesterday reprinted a Czechoslovak commentary from the weekend that accused the Polish unions of being linked with anti-Communists and of threatening the Warsaw government. [redacted]

25X1

The Soviet media have for the first time referred to events in Hungary in 1956 and in Czechoslovakia in 1968 in connection with current developments in Poland. In a TASS item on Saturday and a Moscow radio broadcast to Poland on Monday, the Soviets condemned the alleged role of Radio Free Europe and other Western broadcasts for aggravating the Hungarian and Czechoslovak crises and claimed that their "role" in Polish events is "equally

--continued

Top Secret

25X1

5 November 1980

Top Secret

25X1

ominous." Although Moscow's statements support the Kania regime's own media campaign against alleged Western interference in Polish affairs, they also seem designed to deliver an implicit warning to the Polish people.

Assistance to the Unions

25X1

Solidarity apparently is receiving at least some modest assistance, such as printing presses and funds, from Western trade unions. The International Confederation of Free Trade Unions is playing a coordinating role, maintaining communications with Polish union leaders and passing along requests to those of its affiliates that wish to furnish funds and equipment.

25X1

25X1

Top Secret

25X1

5 November 1980



Defense Minister Dmitry Ustinov
photographed during October 1980
Supreme Soviet session

628405 11-80



First Deputy Defense Minister
Nikolay Ogarkov photographed
during May 1980 Warsaw Pact
meeting

Top Secret

BRIEFS AND COMMENTS

25X1

USSR: Ustinov's Illness

A Soviet source has told US Embassy officers in Moscow that Defense Minister Ustinov is suffering from cancer and will step down soon.

25X1

Since early last April, the 72-year-old Ustinov has missed several important meetings and ceremonies and has been absent from public view for extended periods. His attendance at the Supreme Soviet sessions on 22 and 23 October marked his first appearance since early September.

25X1

Although Ustinov received the Ethiopian Defense Minister late last month, he failed to join other Politburo members at award ceremonies for President Brezhnev and Ethiopian leader Mengistu. The next meeting he would be expected to attend comes tomorrow, when Soviet leaders gather for a ceremony preceding the anniversary of the Bolshevik Revolution.

25X1

One of Ustinov's principal deputies, Marshal Nikolay Ogarkov, 63, probably has the inside track to succeed him. Ogarkov has filled in for Ustinov with increasing regularity, most conspicuously during visits last month by Syrian President Assad and Afghan Prime Minister Karmal. He also canceled an official visit to Finland in October, claiming that he was needed in Moscow to act as defense minister because of Ustinov's illness.

25X1

Top Secret

25X1

5 November 1980

Top Secret

25X1

USSR - WESTERN EUROPE: Demarches on China

Following the recent flurry of visits to Beijing by West European leaders, Moscow appears to have launched a new campaign to deter several NATO allies from helping China to modernize its economy and build up its armed forces. [redacted]

25X1

Soviet diplomats in Bonn, Paris, and The Hague recently have delivered demarches warning that China's military posture on its Siberian border and adjacent to Vietnam endangers detente. They also have insisted that Western steps to arm China would force the USSR to take the necessary measures to secure its frontiers and to prevent any change in the balance of forces unfavorable to Moscow. [redacted]

25X1

In Copenhagen, Oslo, and Rome, other Soviet diplomats have made the same points in informal conversations and have also suggested that growing US-Chinese military cooperation could have "very grave consequences" for US-Soviet relations. At a minimum, the Soviets probably hope that some West European leaders will urge the US to be more restrained in its dealings with China on security matters. [redacted]

25X1

Although the Chinese lack the funds at this time to make extensive purchases of major weapon systems, the Soviets may fear that the recent high-level visits to Beijing could pave the way for substantial arms deals in the future. [redacted]

25X1

In the meantime, the Soviets are using economic influence to block West European dealings with Beijing.

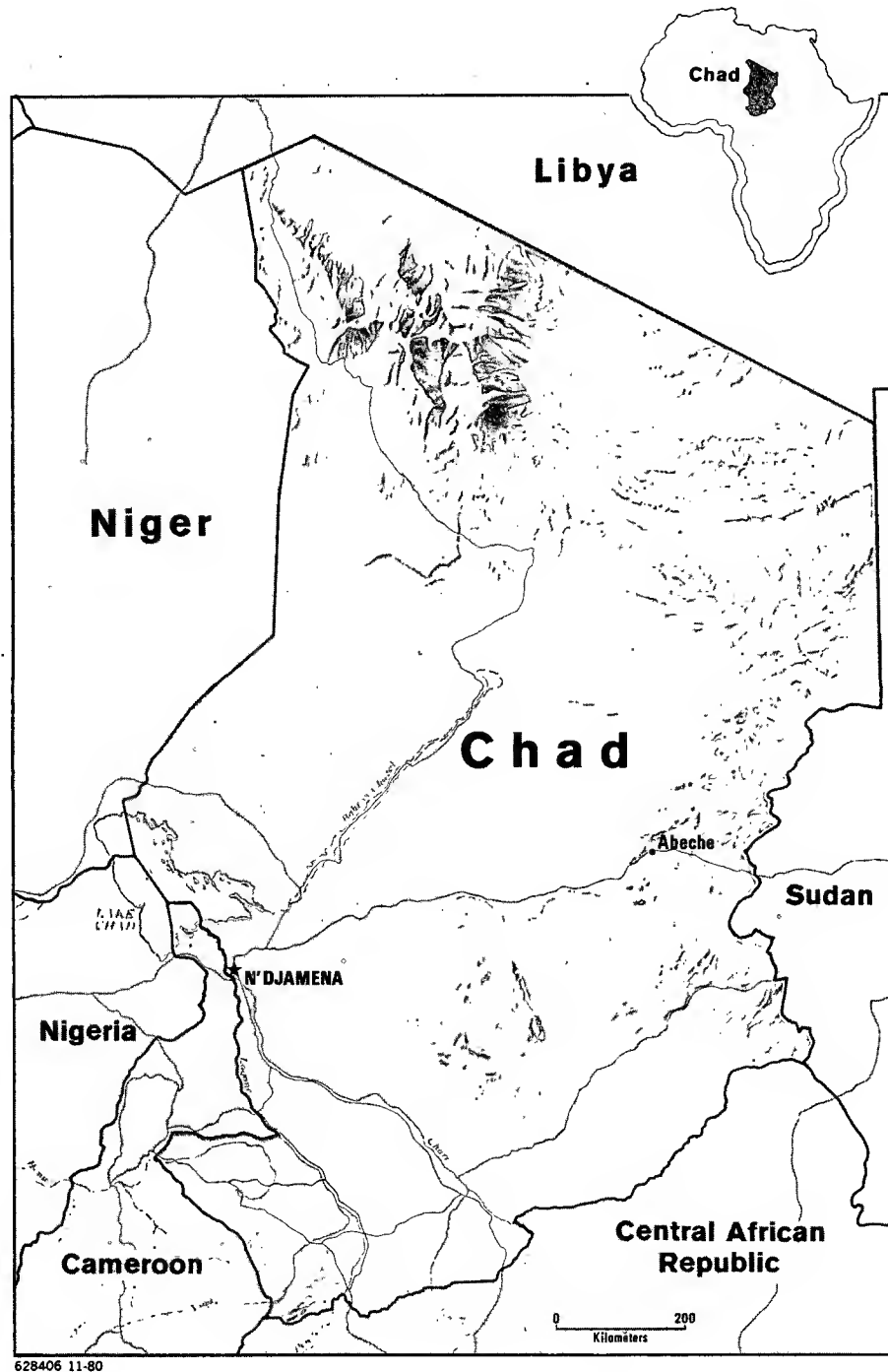
[redacted]

25X1

Top Secret

25X1

5 November 1980



Top Secret

25X1

LIBYA-CHAD-SUDAN: Concern Over the Libyan Threat

25X1

The movement of Libyan forces toward the town of Abeche in eastern Chad poses a potential threat to western Sudan.

Libya has for some time backed President Goukouni in the Chadian civil war; Egypt and Sudan support Defense Minister Habre. If Libyan units were to capture Abeche, they could interrupt Habre's supply lines from Sudan and extend their control to the Sudanese border.

25X1

Libyan forces probably would not cross into Sudan, but their presence near the border would make it easier for Libyan leader Qadhafi to support cross-border raids by Sudanese dissidents and to incite the Sudanese across the border against President Nimeiri's regime.

25X1

25X1

There have been unconfirmed reports since early 1980 that the Libyans have been recruiting men from tribes in western Sudan for paramilitary training in Libya. Tripoli also may be trying to cultivate support in the area by providing the inhabitants with food and fuel, which are chronically in short supply.

25X1

25X1

Top Secret

25X1

5 November 1980

Top Secret

25X1

YUGOSLAVIA-USSR: Status of Relations

Relations between Yugoslavia and the USSR appear to be improving, despite continuing differences over key international issues. [redacted]

25X1

Officials in both Belgrade and Moscow evidently believe that it is in their interest to work for closer ties. The Yugoslav leadership is anxious to improve bilateral relations during the post-Tito transition and may be seeking economic assistance. The Soviets, preoccupied with Afghanistan and Poland, welcome improved relations with Yugoslavia, a leader of the Nonaligned Movement. [redacted]

25X1

Over the past two months, polemics have decreased while high-level visits have increased. Soviet Planning Chief Baybakov recently visited Belgrade; Politburo member Grishin is scheduled to arrive there early this month. [redacted]

25X1

Nonetheless, major policy differences remain between Moscow and Belgrade. The Yugoslavs took a firm stance on Kampuchea during the recent visit by the Vietnamese Foreign Minister, and Belgrade continues to oppose the Soviet intervention in Afghanistan and Cuban influence within the Nonaligned Movement. [redacted]

25X1

The warmer relations between Belgrade and Moscow also may be having an effect on Bulgaria. A high-level Yugoslav official recently characterized Yugoslav-Bulgarian relations as the best in years. [redacted]

25X1

Polemics on the Macedonian issue have virtually disappeared from the Yugoslav and Bulgarian press, and Bulgarian leader Zhivkov personally attended the opening last month of a Yugoslav exhibit in Sofia. Yugoslav Foreign Minister Vrhovec is scheduled to visit Bulgaria at the end of this month. [redacted]

25X1

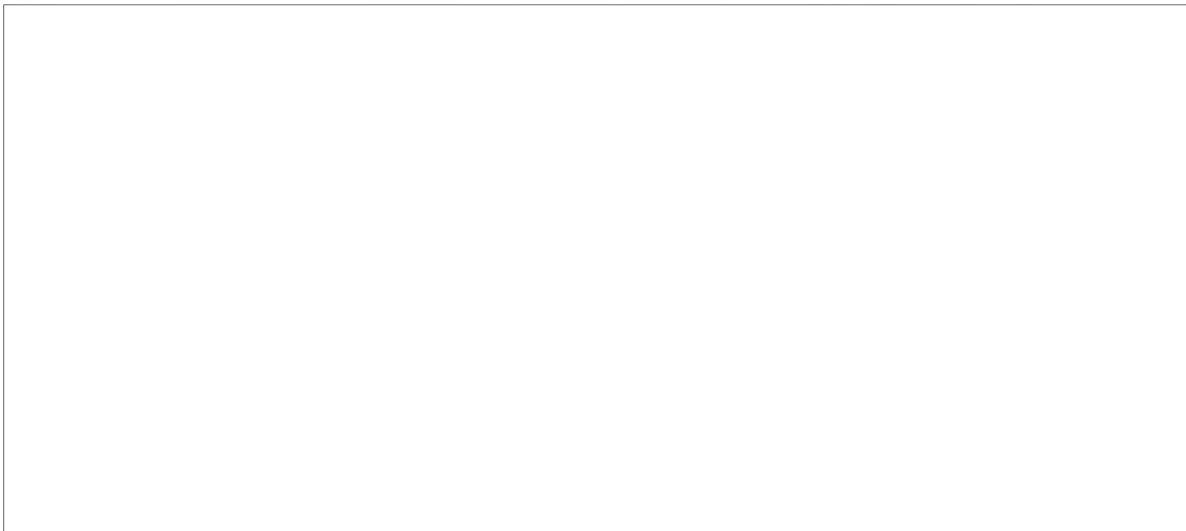
Top Secret

25X1

5 November 1980

Top Secret

25X1



25X1

NETHERLANDS: TNF Developments

The Democrats '66 party congress passed a resolution last weekend opposing cruise missile deployment at this time in the Netherlands but agreed to reconsider its decision later. More important to long-range efforts to strengthen support for TNF modernization, however, is the indication from Democrats '66 parliamentary leader Terlouw that the party would not consider joining any coalition involving the Liberals, the staunchest TNF supporters among Dutch parties. The Democrats '66 probably will play a pivotal role in forming the new government after the election next May, and Terlouw's statement encourages speculation that the party wants to form a coalition with the Christian Democrats, many of whom are unenthusiastic about deployment, and the Labor Party, which is opposed.

25X1

Top Secret

25X1

5 November 1980

Page Denied

Top Secret

25X1

25X1

SOUTH KOREA: Major Loan

Seoul has secured unexpectedly favorable terms for syndication of a \$500 million Eurodollar loan for the Korea Development Bank, enabling Seoul to meet its foreign capital requirement for 1980 of almost \$8 billion. The loan terms--.875 percent above the London Interbank offer rate spread over eight years--are comparable to rates for South Korea's last major syndication in March and are better than had been anticipated only a month ago. Despite slim profit margins, there should be little problem lining up participants; Western bankers feel they must demonstrate support for South Korea in order to participate in future and potentially more profitable syndications. The favorable terms also reflect weak loan demand in international markets and the increased confidence within the banking community regarding stability under the Chun government.

25X1

Top Secret

25X1

5 November 1980

25X1

Top Secret

ISRAEL-FRANCE: Aircraft Purchase

A Tel Aviv - based domestic airline, Arkia, has bought a \$39 million A-300 airbus from France's Airbus Industrie under exceptionally good credit terms, including 9 percent interest charges on a loan repayable over 10 years. The French consortium, which is making increased inroads into Western aviation markets with the A-300 and A-310 wide-body aircraft at the expense of US manufacturers, has often granted easy credit to Middle Eastern buyers. With government support, Airbus Industrie will press Arkia and El-Al, Israel's international airline, to buy additional aircraft when representatives of each visit France early this month.

25X1

Top Secret

25X1

5 November 1980

Top Secret

25X1

SPECIAL ANALYSIS

POLAND: Balance-of-Payments Deficit

25X1

Poland's trade deficit with non-Communist countries will be considerably larger in 1980-82 than we previously forecast. We believe Warsaw has lined up sufficient financing to satisfy its needs for 1980, but raising the necessary funds for 1981 and 1982 will be difficult.

25X1

The strikes last summer, the wage settlements at the end of August, and a worse-than-expected harvest indicate that the trade deficit for 1980 will now reach some \$1.7 billion, about \$500 million above our prestrike forecast. This deficit will also be higher than we had thought because Warsaw seems committed to appeasing consumers by increasing supplies of consumer goods. Exports will suffer and imports will have to be boosted. A below-average grain harvest and a sharp decline in the potato crop will probably require substantially increased imports of grain and processed foods, notably meat. With interest payments on the debt expected to total about \$2.7 billion, the current account deficit will probably reach \$3.8 billion this year.

25X1

Outlook for 1981-82

The Polish economic scene is shifting so rapidly that balance-of-payments projections are hazardous. The outlook, however, is worse now than it was last summer. We expect the hard currency trade deficit will level off at about \$1.5-1.6 billion in 1981 and 1982. The current deficits, because of rising interest payments, are projected at \$4.3-4.7 billion.

25X1

The upward revision in our estimate of the trade deficits in 1981-82 reflect:

- The government's virtual abandonment of its recent austerity program and consequent re-direction of resources from exports to personal consumption.

--continued

Top Secret

25X1

5 November 1980

Top Secret

25X1

--Limits on Warsaw's ability to cut drastically imports of producers' goods without causing serious disruption to the economy.

--The impact on production of a shorter work-week and elimination of round-the-clock work in the mines that was introduced as part of the strike settlements.

25X1

Financing the Borrowing Requirements

Poland's borrowing requirement this year will total about \$10 billion to cover the anticipated current account deficit of \$3.8 billion, repayments of medium- and long-term debts of \$5.9 billion, and probable increases in assets--net loans and bank deposits--of \$300 million. Poland probably will be able to raise the needed funds. About \$7.3 billion in credits has already been raised or is being negotiated, and the remaining gap should be easily filled.

25X1

Covering the financial gaps in 1981-82, about \$12 billion in each year, will be more difficult. Problems in obtaining a \$325-million syndicated loan last August showed that Western banks are becoming increasingly reluctant to lend to Poland. The Poles had originally sought \$500 million, and the loan includes about \$75 million from Communist-controlled Western banks, which entered the syndication to prevent the negotiations from collapsing. The syndication could be considered a rescheduling because the participating non-Communist banks were for the most part lending amounts roughly equal to what the Poles were to repay them in the near future. De facto rescheduling of this sort has been the hallmark of Polish borrowing efforts for more than a year.

25X1

Reluctance to lend to Poland has been intensified by the abandonment of the government's short-lived austerity program. If banks refuse to continue rolling over the Polish debt, a formal rescheduling effort will be required. At the end of 1979, about \$18 billion in medium- and long-term debt was due for repayment in 1980-82. A multilateral rescheduling, which now seems likely, will aggravate Poland's problem of finding money to finance the large current account deficits.

25X1

--continued

Top Secret

25X1

5 November 1980

Top Secret

25X1

Poland could continue to receive sufficient external financing only if several unlikely events occur:

- Commercial banks, rather than face the embarrassment of acknowledging bad loans and the complex procedure of arranging a multilateral rescheduling, will continue to roll over Poland's debt informally.
- The banks, under pressure from exporters in search of markets and from governments motivated by economic and political considerations, continue to extend government-backed loans to provide additional funds.
- The USSR and other Communist countries provide substantial aid.

25X1

Disintegrating Western confidence in Poland, however, makes muddling through improbable. Warsaw should be able to tap Communist governments and Western banks for one-third to one-half of the \$9 billion needed to cover the projected current account deficits in 1981-82. If this is right, direct Western government aid of as much as \$6 billion will be necessary unless Warsaw undertakes a crash program to cut imports and to divert production from the domestic economy into exports.

25X1

25X1

Top Secret

5 November 1980

Top Secret

25X1

Top Secret